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RUEHBJ/AMEMBASSY BEIJING 0160
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RUEHPE/AMEMBASSY LIMA 0676
RUEHQT/AMEMBASSY QUITO 0932
RUEHSG/AMEMBASSY SANTIAGO 0217
RUEHUL/AMEMBASSY SEOUL 0197
RUEHTV/AMEMBASSY TEL AVIV 0034
RUEHKO/AMEMBASSY TOKYO 0100
RHEHNSC/NSC WASHDC
RHMFISS/JOINT STAFF WASHINGTON DC
RHMFISS/CDR USSOUTHCOM MIAMI FL
RUEKJCS/SECDEF WASHDC
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUENAAA/SECNAV WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RUEHGV/USMISSION GENEVA 0282
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FOR STATE WHA/CEN TELLO

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TAGS: [ECON](#) [FCSC](#) [EFTA](#) [ETRD](#) [EWWT](#) [PM](#)

SUBJECT: PANAMA PROPOSES CANAL TOLL INCREASES

REF: A. PANAMA 00047
[1](#)B. PANAMA 2374
[1](#)C. PANAMA 2375

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ACCORDINGLY.

[1](#)1. (SBU) SUMMARY. On February, 2, 2007, the Panama Canal Authority (ACP) announced its proposed toll increases for the Panama Canal. The proposed toll increases run through 2009. The ACP is holding a public comment period through March 12, 2007 and a public hearing on March 14, 2007. The full text, in English and Spanish, of the proposed toll increases can be found on the ACP's website, www.pancanal.com. Under the new proposal, tolls on containerized shipping will increase by 33% by May 1, 2009. Tolls on passenger ships will be subject to a new regime based on berths. Tolls on other ships will increase by 16% to 24% by 2009. The ACP's rationale for the toll increases is based on the value of the Panama Canal to its users given the savings to the users and the better service to be provided as a result of the canal expansion project. The proposed toll increases are more than double the anticipated 8% increases the ACP had previously signaled. The Panama Canal continues to experience increasing demand for its services. END SUMMARY.

Toll Increase Announcement and Information

[1](#)2. (U) On February 2, 2007, the ACP announced its proposed toll increases for the Panama Canal. The proposed toll increases run through 2009. The ACP is holding a public comment period on the increases which ends at 4:15 pm (Panama time) on March 12, 2007. All comments must be submitted in writing. On March 14, 2007, the ACP will hold a public hearing at which any party who participated in the public comment period may appear. The full text, in English and

Spanish, of the proposed toll increases can be found on the ACP's website, www.pancanal.com.

ACP Proposes Hefty Toll Increases

¶3. (U) Under the new proposal, tolls on containerized shipping will increase an additional 33% by May 1, 2009 over the May 1, 2007 rate. Pursuant to toll increases announced previously in 2003, tolls on containers are scheduled to increase from \$49.00 to \$54.00 per laden containers on May 1, 2007. Under the new proposal, toll will increase to \$63.00 per laden container on May 1, 2008 (a 16.67% year over year increase) and \$72.00 per laden container on May 1, 2009 (a 14.3% year over year increase). Tolls on ballast containers will increase from \$43.20 per ballast container as of May 1, 2007 (under the previously announced 2003 increases) to \$50.40 on May 1, 2008 and \$57.60 on May 1, 2009.

¶4. (U) Containerized shipping is the fastest growing segment of the ACP's market, having more than doubled over the past ten years. During 2006, containerized ships accounted for 38% of the total tonnage transited through the Panama Canal and 49% of total toll revenues.

¶5. (U) The ACP proposes to charge passenger ships based on maximum berth capacity instead of the current tonnage system. Under the new proposal, large vessels will be charged on a per berth basis and smaller vessels will continue to be charged under the current tonnage system. This would mean that large passenger ships would be charged \$100.00 per laden berth and \$80.00 per empty berth as of October 1, 2007. The tolls increase to \$115.00 per laden berth and \$92.00 per empty berth on October 1, 2008 (a 15% year over year increase) and \$120.00 per laden berth and \$96.00 per empty berth as of October 1, 2009 (a 4.3% year over year increase). Passenger traffic through the Panama Canal represented only 2.3% of the North American cruise market during the 2005/2006 cruise season.

¶6. (U) General cargo ships, refrigerated cargo ships, dry bulk ships, small passenger vessels, and vehicle transport ships will continue to pay based on tonnage. Tolls on general cargo ships will increase 19% by 2009. Tolls on refrigerated cargo ships will increase 12% by 2009. Tolls on dry bulk ships and small passenger vessels (less than 30,000 registered tons) will increase by 16.5% by 2009. Tolls on vehicle transports will increase by 19.4% by 2009. Tolls on all other types of ships will increase by 24% by 2009.

Neutrality Treaty Considerations

¶7. (U) Article III, Section 1(c) of the Neutrality Treaty provides, in pertinent part, that tolls and other charges for transit and ancillary services will be fair, reasonable and equitable and consistent with the principles of international law. In the Understanding to such treaty, it states that Article III, Section 1(c) of the Neutrality Treaty shall be construed as requiring, before any adjustment in tolls, that the effects of any such toll adjustment on the trade patterns of the U.S. and Panama shall be given full consideration. Among the factors requiring consideration are the costs of operating and maintaining the Panama Canal, the competitive position of the Panama Canal, the interest of the USG and GoP in maintaining domestic fleets, the impact of increased tolls on the various geographical areas of both parties and the interests of both parties in maximizing international commerce.

Rationale for Toll Increases

¶8. (SBU) The ACP's rationale for the toll increases focuses on the value of the route offered by the Panama Canal to each

user market segment, the cost and benefits of the \$5.25 billion Panama Canal expansion project, the relative value of the route in comparison to the Suez Canal and other routes (such as the multimodal system in the U.S.), the effects of the toll increases adjusted for inflation, and greater transparency of tolls which will allow to user to more easily pass along costs. The ACP maintains that higher fuel costs, higher shipping costs, the demands of just-in-time inventory management and increased international trade make the service offered by the Panama Canal more valuable than before. The ACP believes that the time and distance savings offered by the Panama Canal and the improvement in service to be provided through the canal expansion project merit the proposed toll increases. Valentine Lynch, the ACP's Tolls and Rates Manager, told Econ Chief on February 4, 2007, that even with the toll hikes, the Panama Canal is still a "great deal" for shippers.

Proposed Increases Higher Than Expected

¶9. (U) The ACP has publicly stated that it wants to double tolls by 2025. The proposed toll increases get them 30% of the way on containerized traffic and 20% of the way on all other transits. The toll increases are more than double the anticipated 8% increases the ACP had previously signaled. See reftel A.

Canal Demand Continues to Grow Strongly

¶10. (U) The Panama Canal continues to experience increasing demand for its services. During its first fiscal quarter ended December 31, 2006, the ACP reported quarter over quarter increases of 8% in total transits, 11.7% in tonnage transited, 14% in Panamax ship (the largest ships that can transit the Panama Canal) transits and 7% in refrigerated ship transits. Additionally, the ACP reported an earlier start to the high season, indicating increased demand. The historical high season runs March through May. The ACP reported that during 2006, the high season began in February and that it appears the high season this year began in mid-January. During the its first quarter, the ACP reported unseasonably long wait times to transit the Panama Canal of up to five days.

Comment

¶11. (SBU) The higher than anticipated proposed toll increases are likely to generate protests, especially among users from Japan, Chile, Peru and Ecuador (reftel A). However, the ACP feels the toll increases are completely justified and, when confronted, will challenge the shipping industry to specifically demonstrate how they are adversely affected by these increased tolls. To do so, the ACP believes the shipping industry will be required to reveal certain operating financial information the shipping industry has historically refused to disclose. In the end, we expect there will be protests but no backing down by the ACP on the proposed toll increases. The ACP is confident that they are providing a service whose value is increasing and which is in ever increasing demand. The ACP is seeking to capitalize on its ability to exercise pricing power, knowing full well that demand is dependent on international trade and global economic growth, none of which is guaranteed in the future.
Eaton